06-121

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Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Hearing Testimony of Paula Madison, President and General Manager
Station KNBC(TV), Los Angeles, CA
MB Docket No. 06-121

Dear Ms. Dortch:

On October 3, 2006, Paula Madison, President and General Manager of Station KNBC(TV), Los Angeles, and Executive Vice President for Diversity of NBC Universal, Inc., participated in the Commission's public hearing on media ownership issues in Los Angeles. On behalf of NBC Telemundo License Co., the licensee of Station KNBC, we hereby submit Ms. Madison's prepared written statement for the record in this proceeding.

Very truly yours,

/s/ Margaret L. Tobey

Margaret L. Tobey

Attachment

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PREPARED STATEMENT OF PAULA MADISON
PRESIDENT AND GENERAL MANAGER
STATION KNBC, LOS ANGELES, CALIFORNIA

FCC MEDIA OWNERSHIP HEARING
LOS ANGELES, CALIFORNIA
OCTOBER 3, 2006

INTRODUCTION

1. My name is Paula Madison. I am the President and General Manger of Station KNBC(TV), NBC's owned and operated television station in Los Angeles, a position I have held since November 2000. When NBC appointed me to this position, I became the first African American woman to serve as general manager of a network-owned station in a top-five market. I also serve as Executive Vice President of Diversity for all of NBC Universal, Inc., a position I hold in addition to my station responsibilities.

2. Thank you for inviting me to participate in this important hearing. I am here today to speak about:

- the fundamental and ongoing restructuring of America's media marketplace in ways that were never even dreamed of when the current local ownership rules were adopted;
- the resulting and unprecedented competitive pressures facing free, over-the-air television broadcasting, particularly in a market as large and diverse as Los Angeles; and
- the likely consequences of these marketplace forces on the ability of television broadcasters to remain viable and to continue serving their communities of license.

3. As you listen to my remarks, I ask you to consider a few key facts about today's media marketplace:

- The growth rate of *local* ad sales on cable systems and the Internet far outpaces the growth of advertising revenues on television stations, even though advertising remains our key source of revenue.

- The largest seller of *local* advertising on a video platform in many markets is no longer an over-the-air television station, but rather a cable operator that is unfettered by local ownership restrictions.

- More viewers watch cable programming networks during primetime on any given evening than watch the programming of the four major broadcast networks *combined*, and video on the Internet is growing explosively – all of which takes viewers away from broadcast television.

- Younger consumers – the key 18-34 demographic – see the Internet, not television, as their primary source of news and are also fueling the rapid growth of the Internet as a video platform.

4. I want to be unmistakably clear about another key point in this debate – it is very expensive to produce and broadcast local news, particularly in a market as large and diverse as Los Angeles. To put this in perspective – the Washington, D.C., DMA, where many of you reside, encompasses approximately 11,000 square miles. The Los Angeles DMA is nearly <u>four times</u> that size – 41,333 square miles encompassing seven counties, 90 cities and six micro-climates. Just imagine the logistics – and the costs – involved in moving our news crews from one point to another in this market, not to mention the sheer number of news stories that we follow each day. Given the expense involved in producing local news, it should come as no surprise that, contrary to the "big media is bad media" assumption, over <u>90 percent</u> of the daily local television news programs available over the air in Los Angeles are provided by the six largest media companies owning television stations in this market: Tribune, CBS, News Corp., NBC, Disney and Univision.

5. The marketplace developments I describe above – all of which post-date the last modest revision of the television ownership rule in 1999 – have resulted in limitless diversity of media content and unprecedented competition for advertising dollars among media outlets

nationwide, as exemplified by the market – Los Angeles – in which my station must compete. But these developments also put unprecedented competitive pressure on television broadcasters. If the preservation of free, over-the-air television remains an important public policy objective, it is simply imperative that the FCC examine its current local television ownership rules to determine whether they are, in today's marketplace, in fact serving the goals sought to be furthered by those rules – vigorous economic competition, local focus and content diversity among media outlets.

NBCU Is Strongly Committed To Presenting News And Dedicates Substantial Resources To That Endeavor

6. My professional background is in journalism with a particular focus on news reporting. After graduating from Vassar College, I began my career as a reporter and editor for newspapers in New York and Dallas/Ft. Worth. In 1982, I made the transition to broadcast journalism, and from 1982 to 1989, I worked as a news director for Stations KHOU-TV, Houston, and KOTV(TV), Tulsa, and I worked as a news manager for WFAA-TV, Dallas. In 1989, I joined Station WNBC(TV), New York, as Assistant News Director and became the station's Vice President and News Director in 1996, the position I occupied until I assumed management of KNBC.

7. As the General Manager of a network-owned station in the nation's second-largest television market and as a professional news journalist, I am committed to serving our large and diverse community with high quality programming, including locally oriented news and public affairs programs that address the specific needs and interests of our viewers and meet the highest standards of broadcast journalism. This commitment has been ably carried out by the talented news and other programming professionals at KNBC, whose accomplishments have

been recognized through numerous prestigious industry awards, including local Emmy, Golden Mike and regional Edward R. Murrow Awards for "Best Newscast" and "Best Investigative Reporting" and, in 2006, the most prestigious national broadcast journalism award, the Peabody Award for "Best Investigating Reporting." Kovsky & Miller Research, LLC, an independent research firm, has consistently shown KNBC to be the market leader in time devoted to local politics, community reporting and local news in general. In 2006, KNBC will air more than 1,500 hours of local news. And a majority of the news stories reported on KNBC at 5:00 p.m. have not been read, seen or heard anywhere else.

8. KNBC's commitment to producing and broadcasting local news programs of the highest caliber is mirrored by other commonly owned NBC stations. For example, our sister station in Washington, D.C. – WRC-TV – also has won numerous awards for its news reporting, including Capital Region Emmy and Chesapeake Associated Press Broadcasters Association awards.

9. NBC's owned and operated stations excel in the production and presentation of high-quality local news because NBC Universal devotes substantial resources to preserving free, over-the-air broadcasting and to serving the communities in which its television stations operate through locally oriented programming – particularly news programming – that addresses the needs and interests of the local viewers. Approximately 7,000 employees support NBCU's business of over-the-air broadcasting at the NBC and Telemundo networks and the commonly owned television stations affiliated with each network. Plainly NBCU has an enormous financial commitment to over-the-air broadcasting in general. Even more importantly, <u>more than two-thirds</u> of these employees are devoted to news at either the national or local level. This is a remarkable commitment of resources to a product that has no repeat or syndication value.

10. When NBC acquired the Telemundo Spanish-language network and owned and operated stations in 2002, we brought to this new endeavor our unwavering commitment to local news and expanded or created local news programming on Telemundo stations in many markets. This expansion was made possible because NBC could share back office and technical resources with Telemundo – resources that would not have been available to Telemundo based solely on its own revenues and cost structures. Expanding the news and information resources available to Spanish-speaking viewers through our Telemundo stations was especially important to us because, as the FCC's own data demonstrate, this audience relies heavily and disproportionately on free, over-the air television. And even though the Telemundo stations are now commonly owned with NBC stations, each station offers a distinct news product and a distinct editorial voice, which demonstrates the Commission's prior finding that common ownership does not mean loss of diversity.

11. My role as General Manager – coupled with my extensive background in broadcast journalism – gives me a crystal clear perspective on the challenges facing free, over-the-air television stations today as they try to serve their local audiences against the onslaught of competition from cable and other multichannel video programming providers and, more recently, the Internet. Quite simply, television stations have never faced a more rapidly changing and competitive environment than they do today. Americans now have access to a staggering variety of video programming available through technological means that were unimaginable a decade ago when Congress re-wrote the Communications Act of 1934 – or even seven years ago when the FCC last modified the local television ownership rule.

12. This wealth of choices is very good for consumers and advertisers. But it also means that the competitive pressures for viewers and advertising revenues have never been as

intense and relentless as they are today, while the costs of creating, maintaining and continuously upgrading the large and complex infrastructures needed to produce local programming – particularly news programs – continue to escalate.

13. To succeed in this environment of exploding media choices, the imperative for television stations is clear. They must continue to do what they do uniquely better than any other video programming provider: present news, public affairs, sports and entertainment programming that addresses the specific needs and interests of their local audiences. Despite the white-hot competition for viewers among multiple video platforms, studies consistently show that local television news programs remain, by a wide margin, the most regularly watched source of news. Even young, Internet-savvy consumers with broadband connections continue to look to their local television stations for news.

14. Television broadcasters know that their commitment to local news helps to attract and retain viewers, and they want to make the investments in their newsroom infrastructures needed to fulfill this critical role in their communities. But with costs and competition escalating significantly, local stations need additional revenue streams to support that infrastructure. Unlike their multichannel competitors which have two revenue streams – monthly subscription fees and advertising revenues – and can offer dozens of channels to local advertisers, television stations have only a single source of revenues – advertising – and only a fraction of the advertising time available to be sold on the multichannel platforms with which they compete.

15. Congress and the FCC have repeatedly and unequivocally demonstrated a commitment to preserving free, over-the-air television. The mandate to convert the nation's entire television transmission infrastructure to all-digital – from the smallest noncommercial

station in the smallest market to the largest commercial station in the top DMA – reflects our government's belief in the continuing role of over-the-air television as an essential communications medium for the 21st century. Free television is important because it serves as the information and entertainment lifeline to the 14 percent of Americans nationwide (and the 20 percent of Los Angelenos) who do not or cannot subscribe to pay television services; it operates as a powerful and necessary competitor to cable and other media; and it consistently delivers on its promise of serving local communities more effectively and with more local programming than any other communications medium.

16. But make no mistake: the viability of free, over-the-air television is threatened as never before by competitive forces and by governmental policies that severely handicap the ability of stations to respond effectively to those competitive forces. The question for the FCC is whether, in today's marketplace, the current local television ownership rules help or hinder the ability of television broadcasters – the only local video programming provider with affirmative public interest obligations – to offer more – and more diverse – programming; to compete with the multichannel services in their markets for local advertising revenues; and to present programming of particular local interest and relevance.

17. If the FCC's guiding public policy values the free and universally available programming contributed by television stations to the astounding diversity of media choices now offered to Americans in markets large and small; if the public policy values the economic competition contributed by television stations to advertisers in their local markets; and if the public policy values the uniquely local presence contributed by television stations in their communities, then the Commission must consider whether those public policy objectives can be

achieved with a regulatory structure put in place decades ago. The continued existence of free, over-the-air television is at stake, and the time to act is now.

THE FACTS

18. As General Manager of KNBC, I witness firsthand every day how cable consolidation, how the growth of the Internet and how increasing broadband penetration siphon viewers and advertisers away from local television stations. But you don't have to take my word for it -- the facts speak for themselves.

The Television Viewing Audience Is Becoming Increasingly Fragmented By Expanding Cable And Internet Options

19. As of June 2005, almost 86 percent of American television households subscribed to a multichannel video programming distributor (MVPD). The four largest MVPDs (Comcast, DirecTV, EchoStar and Time Warner) accounted for 63 percent of all MVPD subscribers. The average television household now has access to more than 100 programming channels, most of which are nonbroadcast services. As cable and DBS penetration rates climb and the number of cable channels and nonbroadcast networks continues to grow, broadcast television stations' audience shares have fallen and continue to fall.

20. As the Commission itself has reported, for the 2004-2005 television season, consumers watched more cable fare than local television station programming for the first time in history. While television stations accounted for a combined average 47 share of prime time viewing among all television households, nonbroadcast cable channels (including basic, premium and pay-per-view services) accounted for a combined average 53 share of prime time viewing among all television households. When based on all-day (24-hour) shares, the spread is

much wider – television stations accounted for a combined average 41 share, while nonbroadcast channels accounted for a 59 share of all-day viewing in the 2004-2005 season. More recent statistics confirm that television households spend nearly two-thirds of the time spent watching television viewing cable networks as opposed to programming on local television stations. In short, with a broader set of programming options available to them, viewers have dedicated an increasing proportion of their television time to nonbroadcast cable networks.

21. Television stations also face growing competition for viewers from the Internet – a medium that did not even exist as a vehicle for the delivery of video programming when the Commission last revised the local television ownership rule. Indeed, just in the last 12 months, the Internet has been transformed from a source of text, photos and short video clips to a destination portal for full-length video programming. Rising broadband penetration rates account for this dramatic transformation.

22. Seventy-three percent of all American adults now have access to the Internet. But the real story for video delivery is the dramatic increase in broadband penetration. A recent report from the Pew Internet and American Life Project found that the number of Americans with broadband Internet connections at home increased 40 percent from March 2005 to March 2006 (from 60 million in March 2005 to 84 million in March 2006), twice the growth rate of the year before. The study also found that significant increases in broadband adoption cut across the key demographic categories of income, race, education and age. According to this independent research:

- Broadband adoption increased 68 percent among middle-income households (those with incomes between $40,000 and $50,000 per year);
- Broadband adoption increased by 121 percent among African Americans;

- Broadband adoption increased by 70 percent among those with less than a high school education; and

- Broadband adoption increased by 63 percent among senior citizens.

23. As broadband penetration increases, the average time spent online increases accordingly, and younger consumers aged 18-26 spend nearly twice as much time online per week (12.1 hours) compared to consumers aged 51-60, who spend an average of 6.5 hours per week on line. Younger consumers are also fueling the phenomenal growth of the Internet as a primary source of video programming, including such popular video websites as YouTube and others. And consumers in the 18-34 demographic are more likely to turn to the Internet than to television as a source of news. Because these younger viewers represent the future of media consumption in America, their current and expected viewing patterns must play a substantial role in the Commission's consideration of the local television ownership rule.

24. All of these developments are transforming the Internet into a truly viable alternative for video programming, which inevitably will lead to even greater fragmentation of the television audience. Many traditional programmers, including television broadcasters and cable networks, are also offering streaming video on their websites to stimulate and supplement viewing of their television offerings, including previews of new series and simulcasts of news programs. But Internet service providers – like cable operators – are not subject to the affirmative obligations imposed on television broadcasters to respond in their programming to the specific needs and interests of their local audiences, and neither Internet-based video providers nor most cable operators have invested the huge amounts of money needed to maintain these local services – specifically, the costly local news infrastructure – if local TV is not able to continue providing such services.

The Intense Assault On Television Broadcasters For Advertising Revenues Is Unprecedented And Accelerating

25. The explosion of media options for viewers also means that local television stations are facing intense and accelerating competition for advertising revenues. In major markets, local advertising revenues on the cable system operated by the largest MSO now surpass the ad revenues earned by the largest television station in the market. Factors contributing to the growth of local cable advertising include increasing consolidation of cable markets in the hands of a single MSO and new technology – referred to as "interconnects" – that facilitates the sale of advertisements on multiple, separately owned cable systems. According to the most recent report on the State of the News Media presented by the Project for Excellence in Journalism, interconnects presents serious competitive challenges to local television stations because they allow cable operators to offer rates that are a fraction of what individual stations must charge for the same ad. The participating cable systems make more money than competing television stations by aggregating the revenues from ads on 30 or 40 different cable channels – a business strategy not available to local television stations under the FCC's current local television ownership rules.

26. As a result of market consolidation and the rise of interconnects, the growth rate of local cable advertising far exceeds that of local television. For the period 2001-2005, local cable advertising grew 49 percent, compared to broadcast television's growth rate of just six percent. This trend is projected to continue.

27. Despite its substantial growth during the last five years, cable is not the fastest-growing outlet for local advertising. The Internet was virtually unused by advertisers when the Commission last revised the local television ownership rule in 1999, but local online spending is

now outpacing all other forms of media, including cable, broadcast (radio and television), newspapers, national online and outdoor advertising. Spending on local online ads increased an astonishing 191 percent between 2001 and 2005. This growth is being driven by a number of factors, including a shift from "classified"-style ads on websites to a broader set of display and paid search advertising. Also fueling the growth of online advertising is the feasibility of full video ads -- TV-like commercials made possible by increasing broadband penetration in America.

28. From a purely competitive standpoint, these developments are very beneficial, reflecting a robust local advertising market across numerous media that compete directly with each other for ad dollars. Advertisers have responded to these developments by choosing a dynamic mix of media, including cable, newspapers, the Internet, outdoor displays and broadcast radio and television, for their ad campaigns. For television broadcasters, however, the trend is bleak, particularly in the current regulatory environment. Broadcast television stations now capture less than 40 percent of the advertiser spending on newspapers, outdoor displays and broadcast stations. When spending on cable and the Internet is considered, television's share of ad revenues dips even further and will continue to decline as cable and online ad spending grows.

29. The trends in Los Angeles mirror the national trends. Los Angeles is one of the nation's largest and most competitive media markets, as evidenced by the fact that, based on 2005 advertising revenues, NBC, as the owner of three television stations in the Los Angeles DMA pursuant to a temporary waiver, ranks number five among all owners of media in the market. In fact, NBC is not even the largest broadcast station owner in the market (CBS ranks number one with its combined radio and television holdings), the largest television station owner

in the market (News Corp. occupies that position) or the largest Spanish-language broadcaster in the market (a title firmly held by Univision). Moreover, since NBC acquired two Spanish-language stations in Los Angeles as part of the Telemundo merger, two more television station owners have entered the LA Spanish-language television market, further increasing the number of Spanish-language television stations competing in Los Angeles to eight full-power stations.

30. As in other markets, the major group owners of television stations also tend to present the most news (and most local news) programming. In fact, the 11 full-power stations owned by the six largest television station owners in Los Angeles (Tribune, CBS, News Corp., NBC, Disney and Univision) broadcast more than <u>90 percent</u> of the daily local television news programs in the Los Angeles market.

31. But the Los Angeles television market is experiencing the same competitive pressures characteristic of every television market in the country. Our market has experienced the type of cable consolidation that is occurring around the nation: Time Warner now claims approximately 75 percent of the market's cable subscribers. The share of local advertising on cable systems in our market is increasing steadily, and local online ad spending is growing rapidly as the number of locally oriented web sites increases. An Internet search focused on Los Angeles reveals nearly 40 websites devoted to covering news in Los Angeles from a variety of perspectives.

THE IMPACTS

32. Every provider of free, over-the-area television service – from the smallest to the largest – is wrestling mightily with this very difficult issue: how can they remain strong and viable competitors in the face of a massive marketplace restructuring that is causing their

revenues to decline, their market values to drop and their costs to increase? When confronted with the competitive pressures of the sort I have described, a reasonable business owner responds by seeking to operate more efficiently and cost-effectively, particularly if increasing revenues is not a competitive alternative. In such circumstances, a business owner has two choices – it can look for ways to cut costs or it can spread embedded costs over a larger base.

33. The FCC has recognized that the cable clustering I described above accomplishes exactly these purposes for cable operators. Under the FCC's current local television ownership rule, however, the option of spreading costs over a larger base is denied to over-the-air television station licensees. These station owners are severely limited in the number of local outlets they can own, even though NBC's own example with Telemundo demonstrates the tangible benefits – including increased quantity and quality of local news programming – that can be derived from common ownership. Broadcasters are thus left with the option of cutting costs, which presents very painful choices to licensees dedicated to public service, particularly when marketplace forces are moving revenues from the very businesses that are mostly deeply committed to presenting local news to those that have no such commitment whatsoever.

34. All of this means that under the current ownership structure, there inevitably will be cuts in the operations of television stations – in entertainment programming, in sports programming and, yes, in news programming. Sports programming provides one of the clearest examples and foreshadows what is to come. Just look at the institution of Monday night football in America. Long a tradition on ABC's free, over-the-air television stations, that very popular programming has now migrated entirely to ABC's pay cable service, ESPN. Similarly, the NBA all-star game – long a favorite with sports fans all over the country – has moved exclusively to cable.

35. *As a journalist, I am proud to be associated with NBC, a company widely* recognized for its commitment to high quality broadcast news and local service. NBC is not immune from these marketplace forces, however, and we, too, are faced with the need to become more efficient in all areas of our broadcast operations in order to remain competitive. But our commitment to serving our local television audiences with the highest caliber news and public affairs programming will not be diminished, and we will continue to devote a very large proportion of our resources – both human and technological – to carrying out this commitment.

36. Unfortunately, cost-cutting at television stations is a band-aid solution that only temporarily hides the growing wound. If the FCC genuinely wants to preserve free, over-the-air television as a competitor to cable, DBS and the Internet; as the lifeline for those who can't afford pay services; and as the premier source of local news programming, it must give broadcasters the tools they need – including a reasonable and responsible regulatory structure – to remain viable in our nation's dramatically changing media marketplace.

37. Thank you for the opportunity to appear before you today.